

**SOUTH CAROLINA
DEPARTMENT OF INSURANCE
COLUMBIA, SOUTH CAROLINA**

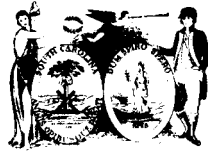
STATE AUDITOR'S REPORT

JUNE 30, 2004

CONTENTS

	<u>PAGE</u>
I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1
II. ACCOUNTANT'S COMMENTS	
SECTION A - MATERIAL WEAKNESS AND/OR VIOLATION OF STATE LAWS, RULES OR REGULATIONS	5
TERMINATION PAY	6
MANAGEMENT'S RESPONSE	8

State of South Carolina



Office of the State Auditor

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 13, 2005

The Honorable Mark Sanford, Governor
and
Ms. Eleanor Kitzman, Director
South Carolina Department of Insurance
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Department of Insurance (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2004, in the areas addressed. The Department's management is responsible for its financial records, internal controls and compliance with State laws and regulations. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. Cash Receipts and Revenues

- We inspected selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the selected receipt transactions were adequate to detect errors and/or irregularities.
- We inspected selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement.
- We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.
- We compared current year recorded revenues from sources other than State General Fund appropriations to those of the prior year and we used estimations and other procedures to evaluate the reasonableness of collected and recorded amounts by revenue account.
- We observed and evaluated the accountability and security over permits, licenses, and other documents issued for money.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

2. **Non-Payroll Disbursements and Expenditures**

- We inspected selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the Department, and were paid in conformity with State laws and regulations; if the acquired goods and/or services were procured in accordance with applicable laws and regulations; and if internal controls over the selected disbursement transactions were adequate to detect errors and/or irregularities.
- We inspected selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement.
- We compared current year expenditures to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

3. **Payroll Disbursements and Expenditures**

- We inspected selected recorded payroll disbursements to determine if the selected payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements; and internal controls over the selected payroll transactions were adequate to detect errors and/or irregularities.
- We inspected selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS.
- We inspected payroll transactions for selected new employees and those who terminated employment to determine if internal controls over these transactions were adequate.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement.
- We compared current year recorded payroll expenditures to those of the prior year; compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computed the percentage distribution of recorded fringe benefit expenditures by fund source and compared the computed distribution to the actual distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Termination Pay in the Accountant's Comment section of this report.

4. **Journal Entries**

- We inspected selected recorded journal entries to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate to detect errors and/or irregularities.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

5. **General Ledger and Subsidiary Ledgers**

- We inspected selected entries and monthly totals in the subsidiary records of the Department to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and the internal controls over the selected transactions were adequate to detect errors and/or irregularities.

The transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

6. **Reconciliations**

- We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2004, and inspected selected reconciliations of balances in the Department's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if they were accurate and complete. For the selected reconciliations, we determined if they were timely performed and properly documented in accordance with State regulations, recalculated the amounts, agreed the applicable amounts to the Department's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Department's accounting records and/or in STARS.

We judgmentally selected the fiscal year-end reconciliations and randomly selected one month's reconciliations for testing. We found no exceptions as a result of the procedures.

7. **Compliance**

- We confirmed through inspection of payroll and non-payroll disbursement vouchers, cash receipts and other documents, inquiry of agency personnel and/or observation of agency personnel performing their assigned duties, the Department's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 2004.

Our finding as a result of these procedures is presented in Termination Pay in the Accountant's Comment section of this report.

The Honorable Mark Sanford, Governor
and
Ms. Eleanor Kitzman, Director
South Carolina Department of Insurance
May 13, 2005

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2004, prepared by the Department and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

9. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2004, prepared by the Department and submitted to the State Auditor. We inspected it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Governor and of the management of the Department and is not intended to be and should not be used by anyone other than these specified parties.



Thomas L. Wagner, Jr., CPA
State Auditor

ACCOUNTANT'S COMMENTS

SECTION A - MATERIAL WEAKNESS AND/OR VIOLATION OF STATE LAWS, RULES OR REGULATIONS

The procedures agreed to by the agency require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the entity is responsible for establishing and maintaining internal controls. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

The condition described in this section has been identified as a material weakness or violation of State Laws, Rules or Regulations.

TERMINATION PAY

An employee who worked on the Highway Safety Grant as a temporary grant employee claimed overtime compensatory time that was not earned from January 2002 through September 2003. The employee submitted different timesheets to her immediate supervisor in grant services and to the finance and payroll departments. Upon the employee's termination, a question arose concerning the employee's compensatory time balance, at which time the payroll department reviewed timesheets retained by grant services and compared them to actual leave records submitted. This review disclosed that the employee had claimed reimbursement for two and one half hours each week in question (i.e., hours worked between the 37.5 hour standard work week and a 40 hour work week that is necessary to claim compensatory or overtime pay) in addition to hours worked in excess of 40 hours per week and included leave taken during her compensatory time calculations. A decision was then made to deduct hours from the employee's annual leave balance at termination to adjust for the errors, resulting in a decrease in termination pay of approximately \$1,900.

The employee discussed this situation with the former Director of the Agency, who authorized the employee be paid \$1,380 for hours worked between 37.5 and 40.0 per workweek, which was not allowable under the Agency's overtime policy that is based on the State's overtime policy and is in compliance with the federal Fair Labor Standards Act. According to Agency personnel, the Agency obtained permission from the Department of Public Safety, the pass-through entity for the Highway Safety Grant, to pay the employee for these hours.

A well-designed and an effective internal control system includes procedures to ensure that payroll transactions are properly processed and to detect and correct errors and inconsistencies in a timely manner. In such a control environment, employees are adequately trained and knowledgeable to properly perform their duties and independent checks and verifications are included as control procedures.

The Agency's overtime policy states that exempt or nonexempt employees shall not receive additional compensation or compensatory time for hours worked between 37.5 and 40.0 hours per workweek. It also states that it is the responsibility of each supervisor to determine that the provisions of the policy are administered in the best interest of the Agency and that the supervisor and employee share the responsibility for ensuring that time reports are completed accurately.

In addition, Section 8-11-30 of the 1976 South Carolina Code of Laws as amended, states that it is unlawful for anyone to receive a salary from the State which is not due and for anyone employed by the State to pay salaries or monies that are not due. Any violation is punishable by a fine and/or imprisonment.

We recommend the Agency adequately train employees to accurately prepare time sheets and develop and implement procedures to ensure supervisors are knowledgeable regarding State Office of Human Resource (OHR) regulations and Agency OHR policies and procedures. We also recommend that the Agency's Payroll department implement procedures for reviewing the accuracy and reasonableness of the timesheets received from other departments. Further, we recommend the Agency seek reimbursement for the overpayment and reimburse the Department of Public Safety for the unallowable expenditures.

MANAGEMENT'S RESPONSE



South Carolina Department of Insurance

MARK SANFORD
Governor

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June 28, 2005

Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, South Carolina

Reference: Audit Comment for the period ending June 30, 2004

The Department of Insurance has reviewed the comment regarding termination pay. The Department acknowledges a grant employee was improperly paid termination pay in the amount of \$1,380. The Department intends to reimburse the Department of Public Safety for this expenditure. The Department does not believe it would be able to collect the overpayment from this employee and therefore will not seek reimbursement. The Department is implementing procedures to ensure that employees and supervisors are properly trained regarding time sheets and State OHR and Federal regulations and laws and accurate time sheet are submitted and reviewed.

The Department appreciates the professional and courteous manner in which the representatives of the Office of State Auditor conducted the examination.

Sincerely,

A handwritten signature in black ink, appearing to read "Tim Baker". The signature is fluid and cursive, with a long horizontal stroke at the end.

Tim Baker
Deputy Director of Administration

5 copies of this document were published at an estimated printing cost of \$1.40 each, and a total printing cost of \$7.00. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.